

CHAPTER FIVE

VALIDATION OF THE ANNUAL LOCAL BUDGET: THE SECOND STAGE

5.1. Introduction

The process of APBD (annual local budget) validation seems to be a battle arena between local legislators and executives to determine the structure and figures of the local budget. Various technical and political issues simultaneously influence this process. In this context, the local executives propose the draft of the annual budget with technical considerations and arguments. On the other hand, local legislators assess the proposals - mostly from a political perspective - to decide whether or not the proposal will be accommodated into the draft.

The questions that commonly arise in connection with the APBD validation stage include: how does the APBD get validated?; who are the dominant actor(s)/ institution(s)?; what roles do they have in the APBD validation process?; and what are the distortions and issues emerging in the APBD validation process? Why?

This chapter will address these questions and show the policy-practice gap in the APBD validation process. This chapter is divided into two sections. The first section concisely describes the validation process of the APBD and also clarifies the role of various actors, while the second section analyses the issues and distortions that emerge in the validation process.

5.2. The APBD Validation Process

The APBD validation process is guided by *Permendagri* (Regulation of the Minister of Home and Affairs) 13 of 2006,¹ particularly chapter 5, clauses 104 to 116. According to these clauses, the validation process consists of three phases: submission of the APBD draft to the local parliament (the DPRD); evaluation by the governor; and formulation of the APBD.

In actual practice, the local authorities appear to make a number of variations in validating the APBD. However, these variations do not substantially change the normative rules, but only aim to adjust to local conditions. As seen in the field, each local government in the study locations applies a slightly different mechanism to legalising the annual budget. Nevertheless, they generally implement the process through four main phases, starting with the submission of the APBD draft to the local parliament, followed by a discussion about the draft in parliament. The next phase is evaluation by the governor, and the process is finalised by the legalisation of the APBD.

5.2.1. Submission of the APBD Draft to the Local Parliament

Once the draft of the APBD has been formulated², it is then ready to be validated by the DPRD. The validation process starts with the Secretary of Local Government, on behalf of the local government head, who submits the APBD draft to

¹ PERMENDAGRI (*Peraturan Menteri Dalam Negeri*/ Regulation of the Minister of Home and

² The formulation process for the APBD draft is elaborated in the previous chapter (Chapter Six) entitled 'Formulation of the Draft of Annual Local Budget (APBD): The First Stage'

the DPRD. Local executives are required to submit the APBD draft by the first week of October. Nevertheless, the facts show that the local officials of Surabaya City, Batu City, and Trenggalek Regency are often unable to do so in a timely fashion. This is due to technical problems as outlined in Chapter Four.

In submitting the APBD draft to the DPRD, local officials include supporting documents such as the detailed figures for the annual local budget (APBD) which consists of the details of local revenue, expenditure, and financing³. The local parliament (the DPRD) currently plays a dominant role in the budgeting process, particularly at the APBD validation stage as elaborated in sub-section 5.3.2. This fact sharply contrasts with the phenomenon existing before the reform era. Nonetheless, this huge authority is not supported by appropriate capacity as most local legislators have poor abilities in executing their legislative tasks (this issue will be further analysed in sub-section 5.3.3). The submitted APBD draft is subsequently discussed during the validation process, which proceeds under the authority and discretion of local legislators.

5.2.2. Discussion of the APBD Draft

The DPRD holds a series of sessions to discuss the proposed APBD draft. The aim of these sessions is to allow the members of parliament to examine the suitability of the APBD draft to the general policy of the budget (*Kebijakan Umum Anggaran/*

³ In the matter of local government revenue, this explains the legal basis, target or volume of revenue and tariff or tax/ levy or other quotes. In regard to local government expenditure, the document outlines the legal basis, volume of expenditure, unit price, location of project, and source of funds. Moreover, in terms of local government financing, it elaborates the legal basis, source, and target of financing.

KUA) and the temporary budget margins and priorities (*Prioritas dan Plafon Anggaran Sementara/ PPAS*) that have been jointly agreed to earlier by local executives and legislators.

The normative guidelines do not specifically regulate the precise number of sessions that need to be held by the DPRD, therefore the details and the number of sessions held by each local parliament in discussing the draft of the APBD may vary. Nonetheless, based on the situation found in the study areas, it can be generalised that the DPRD authorities usually conduct at least five plenary sessions and two commission sessions. These sessions are briefly elaborated below.

Plenary Session 1

The first plenary session is conducted with an agenda to listen to the speech of the local government head (*Bupati/ Walikota*) who presents a summary of the APBD draft. After the speech by the local government head, the chair of the DPRD presents the general assessment of the local parliament on the feasibility of the APBD draft proposed by the *Bupati/ Walikota*. This session officially marks the opening of the APBD validation process.

Ideally, the local parliament should start this session by the beginning of October. Nevertheless, as found in the field, it generally starts late for various reasons. As explained in the previous chapter (Chapter Four), the factors that cause these delays, among others, are: the issuance of many new regulations, frequent changes of regulations; and the relatively low quality of local government and parliamentary staff.

A few days after the first plenary session, all the local legislators are invited by their faction⁴ at the DPRD to discuss the proposed APBD draft. The discussion aims to determine the opinions of the faction that will be presented at the second plenary session.

Plenary Session 2

This plenary session is attended not only by all the local legislators, but also by the head of local government and related key local officials. The main agenda of the session is to present the general point of view of each faction of the DPRD (the local parliament) in responding to the APBD draft (the annual local budget) proposed by the *Bupati/* Mayor. The general opinions of the faction regarding the proposed APBD draft are presented by the faction chairman or another appointed member.

The field data reveal that the review conducted by factional members from the local parliament focuses on the structure and composition of the APBD. The legislators analyse the expenditure allocated for the executive's routine activities as well as the programs and projects targeted at the community. Local government officials are required to attend the session because they need to listen attentively to the responses, assessments, and questions presented by each faction. This is very important for local government officials, as they must present a comprehensive explanation at the next plenary session to clarify the legislators' responses.

⁴ A faction is a group within parliament that consists of legislators coming from the same political party or from different political parties that are committed to join a single faction.

Plenary Session 3

Approximately one to two weeks after the second plenary session, the DPRD invites local executives to conduct the third plenary session. The primary agenda of the session is to present the answers of the executives in response to the general opinion of the factions presented at the previous plenary session. The executive's answer is usually delivered by the *Bupati/Walikota* assisted by chairmen from local government agencies.

Unlike the previous sessions, this one usually takes longer as it is often characterised by fierce debates between legislators and local officials. All the answers and responses provided by local executives are then internally discussed by the DPRD members. The DPRD also breaks down the proposed APBD draft into several categories based on the type of local government function. Each classification of the APBD is subsequently discussed in more detail at the commission level.

The Commission Meeting

The commission⁵ meeting aims to discuss the proposed budget materials in accordance with the respective areas of duty of the commission in the local

⁵ The number of commissions in the local parliament varies. As guided by Law 27 of 2009, the number of commissions in the local parliament (DPRD) is dependent on the number of legislators in the DPRD. Provision 356 of Law 27 of 2009 stipulates that if the local parliament has 20-35 legislators, then it is allowed to have 3 commissions. Additionally, if the DPRD has more than 35 legislators, then it is permitted to form 4 commissions. Each commission has the authority to supervise certain functions undertaken by local executives. For instance, in the City of Batu, there are 3 commissions with a division of tasks as follows: Commission A is in charge of governance affairs, law, and employment; Commission B supervises the economy, local finances, and the environment; and Commission C is in charge of local development and social prosperity.

parliament (the DPRD). Each commission reviews the particular part of the APBD that is applicable to its area of duty⁶.

In light of the results of the previous session, in case either the commission is not satisfied with the explanation delivered by the local executives in the previous plenary session, or if the commission has further queries about the proposed budget, the commission can invite the respective local officials to the parliament. These officials are invited in order to explain the proposed program and budget in greater detail, so that the commission has a comprehensive overview through which to determine their final decision regarding the portion of the budget allocated for respective activities. This part of the process also aims to provide a better understanding about the proposals, and thus it may reduce the possibility of misunderstandings between local legislators and executives.

Nevertheless, the reality shows that the attendance and explanations of the executive officials at the commission meetings do not automatically lead the commission to approve their proposals. Even though these officials are frequently invited by the commission of the DPRD to explain and clarify their proposals, this does not help their project proposals to get approved by the commission. Moreover, they claim that their proposed projects often disappear from the list of proposed programs and projects without any explanation from the commission members. Once the commissions have finished reviewing the proposed APBD draft, they then arrange

⁶ In this context, for example, Commission B of the DPRD reviews the revenue targeted from local taxes and levies, while Commission C analyses the budget allocated for empowering the local community, and so forth.

the commission report. This report will subsequently be presented at the next (fourth) plenary session.

Plenary Session 4

In this session, each commission of the DPRD reports the results of its meeting conducted earlier. The factions of the DPRD also present their final points of view about the APBD draft after being reviewed and revised by the commissions of the DPRD. This session is attended by all legislators from the DPRD and only a few key local officials, because local executives are generally not involved in this session.

Upon making a final decision about the structure and composition of the APBD, the authorities representing the local executives and legislators must accommodate the opinions and suggestions previously presented by the local legislators. As demonstrated in the field, if there is any disagreement among the members of the commission about the APBD figures, the local legislative members conduct further consultations with the budget committee (*Banggar*) of the DPRD. In this step, the local legislative members are strictly obliged to conduct consultations and to coordinate with the *Banggar* prior to formalising the figures in the APBD, regardless of whether there is disagreement among them or not.

This study has discovered that the final decision about the structure and composition of the APBD is entirely under the *Banggars*'s authority and discretion. It can even be said that the *Banggar* is the key player in the APBD validation process, as elaborated in sub-section 5.3.5. The *Bangggar* meetings, as part of the APBD validation process, cannot generally be accessed by any external parties, including

local legislators who are not *Banggar* members. Therefore, the meeting of the budget committee of the local parliament (the *Banggar* DPRD) is commonly illustrated as a ‘discussion in the black box’. This phenomenon will be analysed in sub-section 5.3.6.

Once all the commissions have finished conducting their tasks, and the proposed APBD draft has been consulted accordingly with the *Banggar* of the DPRD, then the final draft of the APBD is fixed. The approved final APBD draft is subsequently presented at the final plenary session.

Plenary Session 5

The final plenary session is attended by all local legislators as well as the head of local government and all key local officials. The main agenda of the session is to make the final decision regarding the structure and figures of the APBD. As explained earlier, the APBD draft has been thoroughly reviewed and revised during a series of sessions conducted earlier. However, if the local legislators still do not agree with the proposed APBD draft, then the local executives and legislators conduct a series of compromises. These compromises commonly occur across Indonesian local governments. As seen in the field, the series of sessions held in the DPRD are mostly a formality. The real process is actually conducted behind the formal stages through numerous political compromises, which will be elaborated at the sub-section 5.3.7.

In cases where the local officials and the legislators cannot reach an agreement through these compromise sessions, and the DPRD authorities will not approve the APBD draft, then the local government can use the previous year’s

APBD composition for the current financial year. In actual practice, the DPRD in the research areas never reject the proposed APBD draft. An official (informant GO-27) of the local body (SKPD) states:

To the best of my knowledge, DPRD never rejected the APBD we proposed. Particularly in the new order era, you know that DPRD mostly approved the APBD draft straight away because DPRD was part of local government ... the worst thing I have ever experienced was what happened in this year (2011). The validation process in DPRD took place longer than usual, so the finalisation of formalisation was very late. It was due to political conflict. However, DPRD finally approved it. The conflict didn't lead to the rejection of proposed APBD draft (Interview: 09/04/11).

Once the two parties (the local executives and legislators) have agreed to all of the details of the APBD, then the heads of the local government and the parliament finalise the draft of the local regulation regarding the APBD (the *Raperda tentang APBD*). Other than this, the local government head also organises the draft of the decree of the local government head concerning the elaboration of the APBD (the *Raperbub/ Walkot tentang Penjabaran APBD*). These local regulations will be used later as the legal basis to execute the APBD. The next step, prior to formalisation, is that the Secretary of Local Government, on behalf of the local government head, hands these drafts to the provincial government for review by the governor.

5.2.3. Evaluation by the Governor

The data denote that local officials send the APBD draft off within three working days after the approval by the local parliament (the DPRD)⁷. In this context,

⁷ Once submitting the drafts of local regulation regarding the APBD and the decree of the local government head, local governments have to attach some supporting documents, including (a) mutual agreement between the Local Government and Parliament concerning the RAPERDA APBD; (b) the KUA and the PPAS that have been agreed by the head of local government and

the Governor, as the representative of the central government, has authority to determine whether or not the APBD is eligible to be validated. The evaluation by the governor aims to examine the compatibility between local and national policies, as well as the compatibility between the public interest and the interests of local government. It is also intended to ensure that the local government budget is not contrary to any higher-level regulations and other local regulations established by the local government itself, and also that they are in line with the public interest. As found in the study locations, the governor's evaluation rarely indicates that the proposed APBD is not in line with the public interest; however, on other hand, the local community is frequently disappointed with the budget as only a small number of their proposals are accommodated by the local legislators. This will be analysed in the sub-section 5.3.4.

In the next step, the result of the evaluation undertaken by the governor is set into a decree of the governor (*Keputusan Gubernur*) and then sent to the region no later than fifteen working days after receiving the budget draft. During the evaluation process, the governor may invite local government officials to explain and provide more clarification about any issues related to the proposed budget.

Parliament; (c) a summary of the session discussing the draft of the APBD; (d) a financial memorandum and the speech of the Local Government Head in the parliamentary session delivering the introductory financial memorandum.

5.2.4. Legalisation of the Draft of the Local Regulation on the APBD

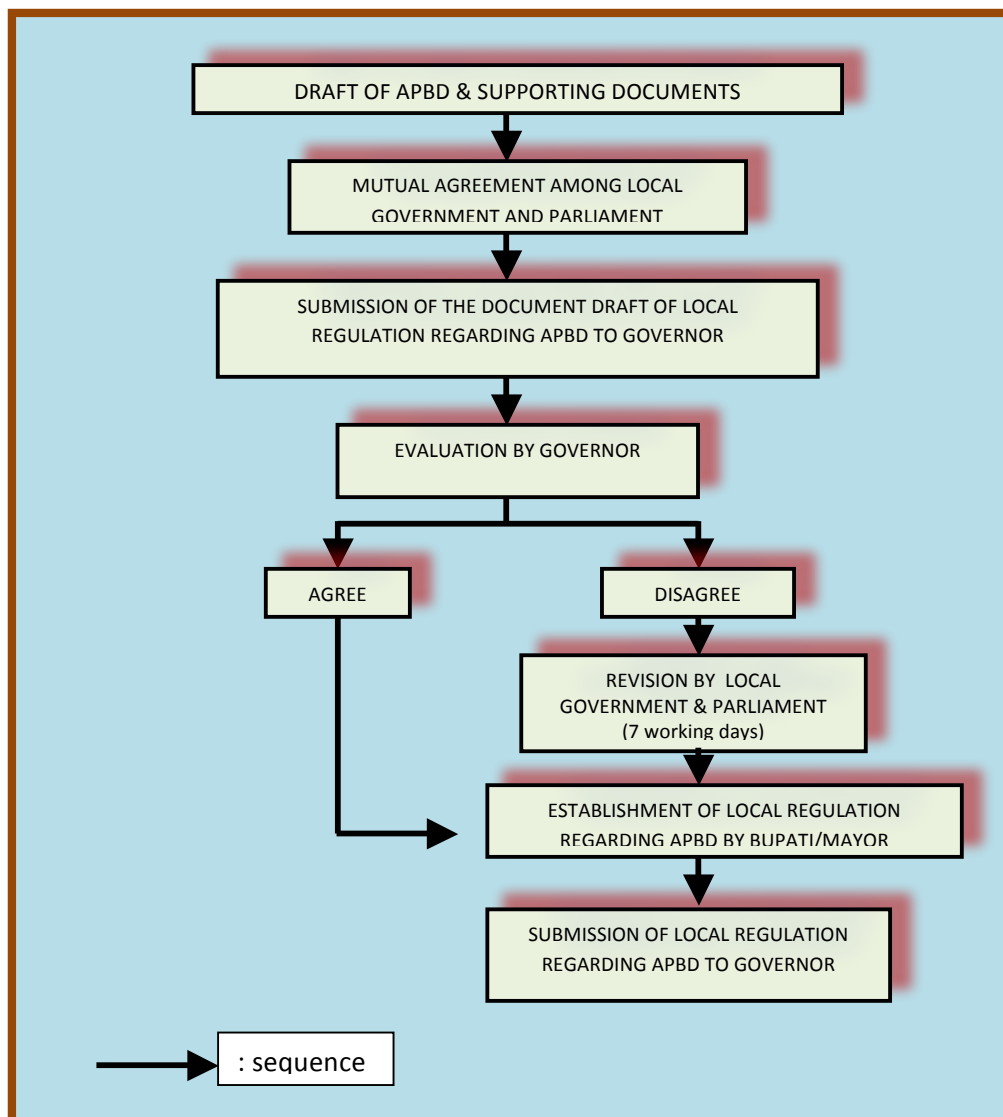
If the results of the governor's evaluation state that the draft of the APBD has been confirmed in line with the provisions outlined in the constitution, then the head of local government (the *Bupati* or *Walikota*) validates the APBD. Otherwise, if the governor notes that the proposed drafts are contrary to legal provisions, then the local government and the parliamentary authorities jointly revise the drafts within seven working days of the date of receiving the evaluation results.

The result of the improvements conducted jointly by the local government and parliamentary authorities is formalised by the head of the DPRD. The decision made by the head of the DPRD is subsequently used as the basis for the Local Government Regulations on the APBD (the *Perda* APBD). On the other circumstance, if the governor does not give the results of the evaluation within 15 working days after submission of the regulation drafts, then the Head of Local Government is allowed to validate the drafts of the *APBD*.

The next step is for the Heads of Local Government to submit the validated APBD (together with the local regulations on the APBD and regulations of the local government head regarding elaboration of the APBD) to the Governor by no later than 7 working days after formalisation. The documents are then to be used by the provincial government as the standard in evaluating the execution of the APBD after the financial year ends.

The mechanism of evaluation of the local regulations regarding the draft Local Budget can be diagrammatically described as follows:

Figure 5.1: Mechanism of Evaluation of the APBD Draft by the Governor



Source: interview and observation

Ideally the whole process of decision-making and other related activities to validate the APBD draft should be completed by no later than 31 December of the previous fiscal year. In practice, local governments in the study areas usually fail to finish this process on time primarily because of political conflict among local executives and legislators, as shown in sub-section 5.3.1.

5.3. The Rhetoric and Realities of the APBD Validation Process.

The APBD validation process operates under the influence of various technical and political factors. This leads to the emergence of numerous issues and distortions within the process. One of the prominent issues is the delay of the APBD validation process which is caused by political conflict during the event.

5.3.1. Political Conflict Leads to an Untimely Validation Process

According to *Permendagri* 13/2006, the APBD validation process should be completed before 31 December so that the APBD is ready to be executed on January 1st of the following year. However, this process frequently ends late because of a number of complex issues. As indicated in the previous chapter, such administrative-technical issues often cause the delay of the APBD formulation process. On the other hand, the APBD validation process can be delayed primarily because of political factors.

Political conflict between the heads of local government and members of the local parliament is a prominent factor in the delay of the APBD legalisation process. As happened in the City of Surabaya, the finalisation of the city budget in 2011 ended very late because of a political dispute between the city mayor and the local parliament head and members. The conflict appeared because the DPRD rejected the policy regarding the increasing of the advertising tax rate issued by the city mayor in October 2010.

In this case, the Mayor claimed that the policy intended to increase the volume of 'own local revenue' (PAD/ *Pendapatan Asli Daerah*), so that it would be a

significant support to the income of the municipality. On the other hand, the Parliament of Surabaya City argued that an increase in the advertising tax rate would directly disadvantage the community as it would place an extra burden onto local businesses. In view of this, the DPRD authorities forced the City Mayor to either cancel or revise the policy. Since the City Mayor denied the request of the DPRD, the parliament took the initiative to depose the Mayor. However, the intention of the local parliament failed because the local legislators' idea was also opposed by the political parties to which the legislators belong.

A staff member (*informant GO-12*) from the Budget Unit stated:

We couldn't do anything. We had already finished formulating the APBD draft in last November and handed it to the DPRD. It was actually an ideal time to validate the draft so APBD can be executed on-time starting on 1 January this year ... However, because of this political conflict, DPRD delayed discussing the APBD draft. Therefore, APBD was just validated last month (March 2011), so it was basically late by 3 months (Interview: 08/04/11).

Such political conflicts also often occur in the Regency of Trenggalek and the City of Batu. Legislator-executive conflicts arise because local officials and legislators scramble the 'APBD cake'. They also have a different orientation in utilizing APBD funds. In this atmosphere, the executives from the local government want to ensure that every program funded by the APBD fits with the RKPD (working plan of local government) and the strategic planning of local government. On the other hand, the DPRD members expect that every program has to meet with the preferences of the community (their constituents). However, in fact, the study discovered that the conflicts are actually due to individual interests, in which each of

the local officials and legislators seems to prioritise their own intentions to gain personal benefit, either in material or immaterial form.

Various forms of executive-legislator conflict have been very common since the implementation of the local autonomy policy in Indonesia. As published in the local and national mass media, these conflicts do not happen only in the research sites but also in local governments across Indonesia, such as in the City of Kupang (Francis, Pos Kupang, 14 January 2011); some local governments in the province of Aceh (Kompas, 22 July 2011); several local governments in the province of North Sumatera (Seputar-Indonesia, 11 January 2011); the Regency of Jember (Surya, 29 January, 2011); the Regency of Bulukumba (Azikin, 2010); and other cities and regencies across Indonesia.

These conflicts habitually cause delays in the APBD validation process. To minimise this tendency, the Finance Minister of Indonesia has initiated a policy which is intended to suspend the release of the DAU (*Dana Alokasi Umum/* General Allocation Fund) and even to cut the volume of the DAU if the APBD validation process continues beyond March 31st. Nevertheless, due to the tolerance of up to three months (January 1-March 31), delays in the preparation and validation of the budget are still very common. As demonstrated in the field, over the last decade, Surabaya City, Batu City, and Trenggalek Regency recorded delays in the range of 2-10 weeks in completing the APBD validation process.

This reality is consistent with the national level which shows that, in 2009, only 23.14% or 118 local governments authorised their APBDs in a timely manner before 31 December. Meanwhile, 348 local governments (68.24%) validated their

budgets in the period from 1 January to 31 March while another 44 local governments (8.63%) legalised their APBDs after March 31st (Seknas-FITRA, 2010). This indicates that the existing reward-punishment policy for local governments in complying with the stipulated timelines of the budgeting process is not really effective in encouraging their compliance. As a result, most local executives and legislators are not particularly worried about this situation. They also do not take the efforts to reduce this tendency seriously, because of their belief that the delay in the local budgeting process is a common phenomenon.

5.3.2. The Role of Local Legislators

As seen in the study areas, local parliaments presently play a fairly dominant role in the validation stage of the APBD. The DPRD's currently have tremendous power in determining the composition and size of the local budget. It can even be said that the validation process of the APBD is 'the local parliament's domain'. This climate contrasts sharply with that witnessed during the ORBA regime era (1966-1998), whereby the DPRD's were stigmatised as simply a 'rubber stamp' for all policies initiated by the local executives⁸. In this period, members of the DPRD used

⁸ The stigma of local parliament (the DPRD) as the 'rubber stamp' of local executives' policies during the New Order era is widely known in the Indonesian political context. This analogy is frequently used by lots of experts, one of them being Wahyudi Kumorotomo who uttered this term in his paper entitled "*Intervensi Parpol, Politik Uang dan Korupsi: Tantangan Kebijakan Publik Setelah Pilkada Langsung*" (Intervention of Political Party, Money Politics and Corruption: the Challenge of Public Policy after Implementation of Direct Local Election", presented at the Conference of Public Administration, Surabaya, 15 May 2009
http://www.academia.edu/1536422/INTERVENSI_PARPOL_POLITIK_UANG_DAN_KORUPSI_TANTANGAN_KEBIJAKAN_PUBLIK_SETELAH_PILKADA_LANGSUNG

to only approve the concepts formulated by the local executives because local legislators did not have the authority, discretion, power, and/or expertise to analyse the executive's initiatives. Moreover, they were also unable to gather input directly from the community. This situation weakened the representative function of local legislators in ensuring that local government programmes, services, and budgets matched the needs and interests of the community.

As fieldwork data reveal, in the present era, the legislators from the DPRD undertake the three main functions of legislation, budgeting, and supervision. Local parliaments nowadays are much more powerful in the local budgeting process, particularly in the APBD validation stage. Even the final decision about whether or not the APBD gets validated is in the local legislators' hands.

In spite of their political superiority, the DPRD members generally perform poorly in carrying out their legislative functions. Most of the parliaments in the study locations produce only one or two *Perdas* (local regulations) each year. This poor level of productivity often leads to the postponement of the APBD validation process in the local parliament. This is because the legislators prefer to conduct other activities that provide greater allowances, such as official trips, comparative studies, and other similar activities.

Furthermore, evidence from the field indicates that the majority of the policies legalised by the parliament are based on the initiative of, and are prepared by, the local executives. The local legislators appear to be active in initiating policy drafts if those policies regulate the internal institution of the DPRD itself, such as the *Perda* about the Parliamentary Order. Outside of such matters, the performance of the

DPRD is rather poor. This pattern reflects a portrait of local legislators (DPRD members) that can be summed up as ‘politically powerful yet technically powerless’.

5.3.3. Lack of Capacity of Local Legislators

The lack of capacity of local legislators leads to a significant dependence on the local executives in the local budgeting process. The reality in the field shows that there are only a small number of legislators who understand and have appropriate knowledge about the local budgeting system, process, and structure. Moreover, they also do not have the background knowledge to understand the origins of income and how to allocate it in an expenditure plan. In contrast, the knowledge about such matters has usually been completely mastered by the executive.

A head of a local body (informant GO-15) states:

Indeed, they (local legislators) have such great political power and they also have authority to supervise us (local executives) in executing our institutional tasks. However, they are weak in personal capacity, experience, and administrative knowledge in the governmental affairs. It is really ridiculous, isn't it? ... I think the national authorities must evaluate and seek a better system for the local level (Interview: 12/03/11).

Most members of parliament have a limited understanding of the APBD budgeting process because prior to serving as legislators, most of them have never been involved in government activities. In contrast, the local executive officials often hold their positions for a long period of time, therefore they are more skilled and experienced than the parliamentary members. The legislators who serve more than one period are usually more experienced and are able, to some extent, to provide a counterbalance to the power of the executives.

Evidence from the study locations also demonstrates that arguments provided by local legislators are often not supported by appropriate data and analysis. Therefore, DPRD politicians struggle to counterbalance the executive officials when discussing any technical and operational matters in the APBD budgeting process.

The problems relating to the lack of experience and knowledge of local legislators is actually rooted in the recruitment system for local legislators. The data show that political parties at the local level do not generally have good recruitment systems. In selecting candidates to be local legislators, political parties prefer to place emphasis on the loyalty and seniority of cadres rather than on their qualifications and capabilities. Moreover, the regulations also stipulate only low requirements for candidates in terms of education level (they need to have passed the senior high school level). As a result, local parliaments mostly consist of political party loyalists rather than more academically qualified politicians. The current condition indicates that only a small number of well-established political parties have capable legislators in the parliament, while other political parties still struggle to recruit well qualified cadres and face difficulties in developing a membership system.

Overall, the weakness of local legislative members is the fault of the political parties because the parties do not prepare their parliamentary members for such tasks. As a result, when the cadres of political parties get elected to be parliamentary members, they do not really understand their main duties and often get confused with what they are supposed to do. Eventually, they often just surrender to the local executives. In spite of these issues of performance and capacity, local legislators also

face the issue of a lack of commitment to the public interest when they discuss the APBD draft at the validation stage.

5.3.4. Issues in Accommodating the Community's Proposals

As seen in the field, local community members generally hope that the members of the DPRD will seriously endeavour to accommodate their voices and aspirations. However, most local people are of the opinion that local legislators do not appear to accommodate the community's interests. As a result, only a small number of the public's aspirations get accommodated into the local budget (the APBD).

As an example, a notable fisherman (informant LP-5) in the Regency of Trenggalek tells of his experience when requesting a development project for cold storage that was urgently needed by the fishing community of Prigi Bay in Trenggalek Regency:

Once we met them (local legislators) to ask their support to accommodate our proposal, they promised to do so. However, we were eventually disappointed as in fact our project proposal couldn't be accommodated. They excused that the kind of project we proposed was not part of the priority programs of local government in the current year ... I reckon it was a classic reason to reject our proposal because lot of people have the same experience as me. They (legislators) just asked us to propose our proposal again by the next following year ... (Interview: 12/01/11).

On the other hand, the majority of local legislators in Surabaya City, Batu City, and Trenggalek Regency reject the assumption indicated above, arguing that they have attempted to accommodate the aspirations of local people. The legislators explain that, even though they have the authority to determine the structure and figures of the APBD, it is impossible to accommodate all public initiatives at the

same time. They also contend that the limited amount of APBD funding is the main reason why local authorities cannot accommodate all the project proposals. Other than this, local governments have priority programs that must be executed in the current financial year. These factors repeatedly lead to the rejection of proposals put forward by local people. As claimed by legislators of the DPRD, community members generally do not understand this situation and immediately accuse the legislators of neglecting their constituents.

In spite of the issues mentioned above, the study finds that an internal body of the DPRD known as the *Banggar* (the *Badan Anggaran*/ budget committee) seems to play a very important role in the APBD validation process.

5.3.5. The *Banggar* of the DPRD: The Key Player in the APBD Validation Process

The *Banggar*⁹ (*Badan Anggaran*/ Budget committee) is one of the mandatory internal bodies of the DPRD established under the guidance of Law 27 of 2009. The main task and authority of the *Banggar* is to provide suggestions for, and considerations to, the head of local government in conjunction with the structure and figures of the APBD. This committee also has the authority to review and select the proposed local projects, as well as to revise the APBD draft.

⁹ The *Banggar* (*Badan Anggaran*/ Budget committee) is led by the head of the DPRD. The deputies of the head of the DPRD are also automatically designated as the deputies of the chairman of *Banggar*. The members of *Banggar* are appointed upon recommendation of each faction of the DPRD. The mutation of *Banggar* membership to other DPRD bodies can be done at the beginning of each financial year upon proposition and agreement of the faction. Law 27 of 2009 stipulates that the maximum number of *Banggar* members is half of the entire DPRD members. The final decision regarding the structure and membership of *Banggar* is set up through a plenary session conducted in the early stages after the new DPRD members are elected.

Normally, the *Banggar* has to coordinate their activities with the elites in the local government in finalising the APBD draft. However, as seen in the field, the *Banggar* tends to act independently in making final decisions about whether or not project proposals are approved. Moreover, this institution also has full authority to decide on the structure and figures of the APBD. It can even be said that every cent of money allocated in the APBD is under the authorisation of the *Banggar*.

Nonetheless, most local officials in the study areas claim that, in selecting project proposals, the *Banggar* members frequently execute this task in a subjective manner. Local executives complain that their institutional project proposals are often rejected by the *Banggar* in the APBD validation process even though these projects are urgent for the community. In contrast, although some proposed projects are not really important, but the *Banggar* members favour them, they then approve these projects to be financed through APBD funds.

The business community in the study locations confirms the situation illustrated above. It can be exemplified by an experience of a professional contractor when he had a number of commitments from key officials of the SKPD (local body) of Batu City to execute a relatively large project in the form of a renovation of the central market. However, this commitment was cancelled because the project proposal was rejected by the *Banggar* at the validation stage of the APBD. The *Banggar* authorities argued that this project had to be postponed because it was not well prepared. On the other hand, local officials and the community argue that the project is very urgent as the existing condition of the old and dirty central market is not appropriate any longer to support the activities of the local economy and local

businesses. More disappointingly, the *Banggar* of the local parliament of Batu City approved a project for the reconstruction of a city park (*alun-alun kota*) which cost more than five billion Rupiahs. The community argued that this project was not urgent or needed by the local people as it does not contribute significantly to improving local economic conditions. The study indicates that this condition arises because there are ‘hidden’ compromises and high-level agreements within the elite of the local executive and the legislators. This will be further elaborated in the next chapter regarding the execution of the APBD.

The *Banggar* members themselves concede the point about their levels of discretion. Nevertheless, they reject the idea that they often deliver their decisions based on subjective judgements. The members of the *Banggar* insist that they are always transparent in presenting the final structure and figures of the APBD at the plenary sessions, so that any party can monitor and criticise what they have done during the APBD validation process.

On the other hand, local government officials assert that the plenary sessions are frequently just a formality. They argue that presenting and discussing the results of the *Banggar* meetings in these plenary sessions is like having a ceremonial event to fulfil the obligations outlined in the legal guidelines. In fact, every decision discussed in the final plenary session actually has been previously decided on by the *Banggar* elites.

As discovered in the research locations, the real process of the APBD validation is carried out in the *Banggar* meetings, whereby all project proposals are reviewed and scrutinised. In this step, key officials of the local government are

usually very active in lobbying *Banggar* members. Such lobbying plays an important role as it may make the *Banggar* more likely to accommodate more of the executive's proposals. Local officials usually lobby the *Banggar* members outside of the formal *Banggar* meetings because the executive officials are not directly involved in the meetings. The *Banggar* meetings are very exclusive and accessible only by members themselves. Referring to this atmosphere, the APBD discussion process in the *Banggar* is often characterised as a 'process in a black box'.

5.3.6. The *Banggar* Discussion: 'Process in a Black Box'

The series of meetings held by the *Banggar* to discuss and review the APBD draft is the core of the APBD validation process. These meetings aim to finalise decisions about local projects and activities that are considered feasible, to be accommodated into the APBD. As shown in the field, the *Banggar* elites usually conduct '*lobi setengah kamar*' (half-room meetings) to discuss those critical issues which need high-level political decisions to be made. These meetings are primarily attended only by the elites of the *Banggar*, without inviting the ordinary members. The DPRD authorities argue that it is too intricate to involve all members of the *Banggar* in making strategic decisions. They also claim that it is normal to involve only the elites of an institution when creating crucial policies.

Discussions about the APBD in the DPRD, which take place behind closed doors, frequently cause frustration for local government officers. They almost never know the criteria set up by the legislators to determine the number of projects to be approved and amount of funds to be allocated for these projects. This circumstance

can be illustrated, for instance, with refer to the experience of officials from the DKP (*Dinas Kelautan dan Perikanan/ Service of Marine and Fisheries Affairs*) of Trenggalek Regency when the institutional project proposals of the DKP were reviewed during the APBD validation process in the DPRD. In 2010, the DKP proposed 36 project proposals to the DPRD. Unfortunately, the *Banggar* of the DPRD only approved 24 of them. The other 12 projects were rejected without clarification from the DPRD. The DKP officials in Trenggalek Regency claimed that some of the 12 rejected projects were priority projects of the DKP that fell within the 2010 financial year.

Additionally, the DKP officials were also concerned about the amount of funds allocated to the 24 approved projects, because some of them were allocated approved funding that seemed inappropriate. For example, there was a project that initially requested a budget allocation for 100 million Rupiah, however the *Banggar* approved only 40 million Rupiah. In contrast, another project that requested an allocation of 60 million Rupiah was approved by the *Banggar* for 100% of the funding. In this case, the *Banggar* did not explain why certain projects received significantly reduced funding while other projects were fully funded as requested. Further, an official (informant GO-23) commented:

We never know the criteria applied by the Banggar to cut the number of projects and to reduce the budget size of each project. The process reviews and discussions conducted by the Banggar are really similar to the process in a black box (Interview: 08/03/11).

Local officials repeatedly complain about these conditions, nevertheless the complaints are not appropriately channelled, because, quite often, local officials do

not have permission to debate these issues directly with the local legislators. Local executives generally have the opportunity for such face-to-face discussions with the local legislative members only when the local parliamentary authorities invite them to the DPRD. In such cases, local legislators usually ask for clarification from local officials about the local government's programs and projects.

Upon facing complaints from local officials about the APBD figures, the DPRD leaders declare that the final figures in the APBD have been jointly discussed with the TAPD (budget team of local government). Since the TAPD is the representative of local government, basically the initiatives and aspirations of local officials have been accommodated in the making of any decisions to do with the APBD. Hence, the DPRD claims that there is no reason for local staff to wonder about the finalised APBD structure and figures. Nevertheless, local officials argue that the TAPD plays an essential role only at the formulation stage of the APBD. Once the draft of the APBD is handed to the DPRD to be reviewed during the validation stage, the control moves completely to the legislators.

In addition, local legislators claim that there are no rules that obligate them to involve any party in the process of scrutinising and reviewing project proposals that may be funded by the APBD. The *Banggar* members of Surabaya City, Batu City, and Trenggalek Regency apply strict procedures in selecting and approving local project proposals in order to ensure that the local budget is utilised appropriately. They also wish to reduce the misuse of the local budget and to certify that the budget genuinely targets the local community.

The facts in the field show that - other than the *Banggar* closed meetings - the APBD validation process is dominated by behind-the-scenes lobbying which involves various political compromises and bargaining processes.

5.3.7. Political Compromise and Bargaining: The Process Behind the Scenes

This study has found a wide range of political compromises and bargaining processes conducted during the APBD validation process. These can be simplified into three types: (1) compromise among legislators of the DPRD; (2) compromise between local executives and local legislators; and (3) high-level compromise undertaken by local government heads and the leaders of the DPRD.

Compromise among legislators

As ordinarily happens in political institutions, rivalry among factions appears to be a common phenomenon. Nevertheless, the reality in the local parliaments in the research locations shows a unique and different tendency. Local legislators tend to treat their colleagues, both from the same and other political parties, as mutual partners. They tend to avoid rivalry and political conflict among the factions. Local legislators behave in this way because they realise that they have the same interests: carrying out their political mission and their individual economic motives¹⁰.

¹⁰ Carrying out a political mission means that legislators have to battle to actualise the mission of the political party through their position in the local parliament. Concurrently, the legislators also intend to gain economic advantage to improve their individual lives. Due to this 'relatively same' mission, legislators attempt to maintain the harmony of the relationship among them, so that they might realise their missions simultaneously.

The research finds that compromise among legislators occurs internally within the local parliament. As demonstrated during the APBD validation process, local legislators apparently support each other when they discuss the APBD draft with local executives. They build collegial relationships not only with peers from the same political party, but also with those representing other political parties. In cases where there are dissenting opinions among them, they compromise so that, in the end, they all agree with the commitment.

The pattern of relationships among legislators in the APBD validation process can be illustrated as follows. During the validation process of the APBD, numerous parties lobby the parliament members, either personally or institutionally, in order to accommodate their project proposals. In this case, a legislator (initialised 'mister 1') was requested to accommodate a project on capacity building for local fishermen ordered by a local NGO domiciled in the coastal areas of Trenggalek Regency. In connection with this, the 'mister 1' contacted other legislators to request their support to 'safeguard' the proposal entrusted to him. In this context, the legislators would generally help each other even though sometimes, they do not wholeheartedly agree with the proposed project. The local legislators need to be loyal in helping the 'mister 1', (or other colleagues who need support), otherwise the peers will not help them when they need support from other legislators. Other than this, the legislators are willing to help their peers to accommodate the requested projects because they will gain a share of the money quoted from the project funds.

Further, once the proposal entrusted to the 'mister 1' was reviewed by the DPRD (particularly by the *Banggar*), it received approval from the local legislators quite easily as the legislative members had been previously lobbied. Subsequently, after the project had been executed and the project funds had been released, the DPRD members received fair compensation in the form of money quoted from the project funds. The local legislators are usually compensated in the range of 5%-15% of the amount of project funds for non-physical projects such as training, feasibility studies, research, etc; and around 2.5%-10% of the budget amount for physical projects, such as construction and infrastructure projects. The compensation money, thereafter, is proportionately shared among all DPRD members. The local legislators do not always know that their colleagues have received fees from projects that were entrusted to their peers, nevertheless, the legislators almost always receive the shared money quoted from the project funds.

Other than the forms of compromise among legislators described above, there are compromises between the elites in the local government and the local parliament.

Compromise between local government and local parliament

The compromise between the local executive and the local legislators in the study areas mostly involves local officials from the SKPD (*Satuan Kerja Perangkat Daerah/* local government body) and legislators of the local parliament (DPRD). In this case, the SKPD officials seem to be the party who actively lobby the elites of the DPRD. They tend to do so because the SKPD officials expect that the DPRD

authorities would approve as many of their institutional proposals as possible, hence the SKPDs would receive a huge budget allocation.

On the other hand, due to their intention to control the utilisation of public finances, the DPRD tends to tighten the budget size allocated to each SKPD. As mentioned by a unit chairman from the KLH (*Kantor Lingkungan Hidup/* Office of Environment Affairs), in the past, the *Banggar* of the DPRD has frequently rejected the institutional projects of the KLH. He stated that around 30%-40% of proposed institutional projects of the KLH were not accommodated by the DPRD during the 2003-2008 period. To avoid this situation, since 2009, he has proceeded to make informal contact with some of the legislators from the DPRD prior to the start of the APBD validation process. The official does so with the aim of persuading the legislative members to accommodate his institutional projects. Along with this, he also offers various forms of compensation for the legislators as a 'reward' for their willingness to accommodate his institutional projects and programs. As a result of following this strategy, the number of the KLH's institutional projects that have been rejected by the DPRD has decreased significantly, to less than 10%.

As seen in the field, most local executives presently prefer to apply the above strategy to get approval from parliament for their institutional projects. In the light of this, a number of informants have emphasised that the key point of compromise is compensation provided to the legislators. This study has found that the simplest and most popular compensation is in the form of cash, which is quoted as a particular percentage of the project funds. Alternatively, local officials offer legislators the opportunity to create a project that will be listed in the local body's institutional work

plan (RKA-SKPD). This project will then be managed and executed under the full discretion of the respective legislators who have made this commitment with the local officials.

In a case where a compromise process conducted by local officials with local legislators cannot reach an agreement, or if any crucial issues cannot be agreed with the middle-level officials, then the heads of the local government and parliament take over the matter. These local elite subsequently hold confidential meetings which are categorised as ‘high-level compromise’.

High-level compromise

High-level compromise is conducted by the leaders of the local government and the parliament. The data indicate that this kind of compromise usually takes place at the end of the APBD validation process. The elites from the local executive and legislature take part in this compromise process, in case the executive-legislative disagreements cannot be solved until the last stage of the validation process.

An example can be illustrated from a phenomenon found in the City of Batu. In 2009, there was prolonged debate in the APBD validation stage. In this case, the local officials would like to reduce the budget deficit by creating and managing local projects as efficiently as possible. In contrast, the DPRD leaders forced the local officials to create as many local projects as possible, even though this would lead to critical budget deficits¹¹. Since the local executives and legislators could not reach

¹¹ According to a number of informants, the local legislators did so because they wished to get as much additional money as possible quoted from these project funds. They needed a huge amount of money, as in that year (2009), they had to provide lots of money to finance the campaign for their

agreement, and this circumstance potentially would lead to a delay in the APBD validation, then the *Walikota* invited the DPRD leaders to conduct a closed high-level meeting to look for a solution to solve the issue. In this forum, the heads of local government and parliament discussed the various compensations offered to the legislators in order to approve the APBD draft proposed by local executives. Eventually, an agreement was reached after the *Walikota* promised to allocate the budget as a ‘severance fund’ that would be granted to the legislators who would retire by the end of the financial year. Furthermore, the *Walikota* also gave an opportunity to those local legislative members to propose projects for their constituents in the following financial year.

As the tendency in the field shows, high-level compromise is confirmed to be one of the most effective ways to achieve agreement between the local executives and legislators in the finalisation of the APBD validation process. Evidently, any disagreement between them can almost always be solved through this form of compromise. The local government and parliamentary leaders may also reach agreement more easily if they come from the same political party. As revealed in the City of Batu, where both the city Mayor and the head of the DPRD are part of the cadre of the PDIP party (*Partai Demokrasi Indonesia Perjuangan*), the APBD validation process was a relatively smooth process. Delays in the APBD validation process in this municipality are generally less than one month.

political parties in the general election. Moreover, they also wanted to get money for the ‘pension fund’, in case they were not subsequently elected.

In contrast, the executive-legislative political compromise takes longer when the leaders of these two institutions come from different political parties. As demonstrated in the City of Surabaya, where the *Walikota* is from the PDIP Party, while the chairman of the DPRD comes from the Democratic Party (*Partai Demokrat*), the process of achieving commitment to the APBD validation is generally more difficult. As previously mentioned, this local government recorded a delay of three months in formalising the APBD in 2011.

Despite the phenomena analysed above, the data shows that the executive-legislative political compromise frequently leads to ‘hidden’ conspiracies. These conspiracies mainly set out to illegally utilise the local budget for the legislators’ personal interests as well as those of their cronies. An elaboration of the utilisation process for the local budget, and various illegal practices in this process, will be further analysed in the next chapter, concerning the execution of the annual local budget (the APBD).

5.4. Summary

The findings show that most local governments and parliaments struggle to complete the APBD validation process in a timely fashion. The APBD is usually legalised after the time limits stipulated in the guidelines. According to Santiso (2004, p. 56), two issues are important to take into account when assessing the role of parliament in the review and adoption of the budget. These are the time allocated to review the budget and the powers endowed to the parliament to review and amend the budget. Allen & Tommasi (2001) contend that, as a general rule, federal states with

bicameral legislatures tend to require more time to review the budget than unitary states with unicameral legislatures. However, the findings show that even though Indonesia is a unitary state with unicameral legislatures, most local governments and parliaments struggle to complete the APBD validation process in a timely fashion. The APBD is usually legalised after the time limits stipulated in the guidelines. This is usually the result of political conflict or disagreement between the local government and the parliamentary authorities.

Fubbs (1999) states that parliamentarians can use their influence to allocate resources for various sectors and to set priorities for meeting the demands of the people. This is relevant with findings that show that during the APBD validation process, the DPRD (the local parliaments) play a fairly dominant role as they currently have greater power in determining the composition and figures of the local budget (the APBD). This contrasts sharply with the situation during the New Order regime (1966-1998) where DPRD were considered to be nothing more than a "rubber stamp" for all the policies initiated by the local executives. Unfortunately, most local legislators have poor skills and experience, and this leads to a significant dependence on the executives. Furthermore, local legislators also lack commitment to the public interest as they often prioritise their own interests instead.

Nonetheless, even though the members of the DPRD have quite poor capacity, the local executives assume that the local legislators are the representatives of the local community on all issues. Therefore, local executives tend to ignore the compulsory edict to conduct public meetings and consultations with local people to discuss the APBD draft, because they argue that the documents have already been

consulted over with local legislators, as the representatives of the local people. In connection with this, Santiso (2004, p. 51) reveals that unconstrained executives and an autocratic executive tend to abuse their constitutional authority and delegated powers. The use, misuse, and abuse of executive discretion in public budgeting have often led to serious economic mismanagement and pervasive corruption. Hence, careful balancing of executive and legislative power is very important.

One of the DPRD's bodies, the *Banggar* (*Badan Anggaran*/ Budget Team), appears to play the most strategic role in the APBD validation process. The *Banggar* has huge authority to screen the projects that may be eligible for funding in the APBD, and also to determine the structure and figures of the APBD. Unfortunately, in delivering these functions, the *Banggar* often does not perform objectively and transparently. Hence, the *Banggar*'s meetings to discuss the APBD are often labelled as a 'process in a black box'.

This current research indicates that every formal phase of the APBD validation process operates as guided by the legal guidelines. In fact, these events appear to be only a formality. The real process of APBD validation is primarily conducted 'behind' the formal sessions through various political compromises and bargaining processes. It is because the local executives do not want their budget proposals to get rejected by the legislative because, as Ljungman (2009, p. 17) asserts, a complete rejection of the proposed budget would indicate a lack of support for the government's policies. Moreover, the political compromises on the budgeting process frequently lead to 'hidden' conspiracies to misuse the public budget, aiming to use it for the interests of the local elites and their cronies instead of in the public's interest.

The phenomena occurring in the APBD validation process, as illustrated above, significantly affect the next phase of the APBD budgeting process, the execution stage. An elaboration and analysis of the APBD execution process will be presented in the next chapter (Chapter Six) entitled ‘The Execution Process of the Local Government Budget: the Third Stage’.